NEWPORT LEGACY ZURICH SWITZERLAND: UPDATE 1-STEADY U.S. WAGE GROWTH LIFTS INVESTORS INFLATION VIEW

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NEW YORK, Oct 5 (Reuters) – The U.S. bond market's gauges on investors' inflation outlook rose on Friday as government data showed a steady rise in wages and the jobless rate hitting a 49-year low in September, hinting at some building in price pressure.

The latest labor figures reinforced the view that domestic wage inflation is accelerating, which would allow the Federal Reserve is keeping raising short-term borrowing costs gradually in an effort to keep the economy from overheating.

The upbeat payrolls report also spurred selling in the bond market for a third straight day, propelling the 10-year Treasury yield to a seven-year peak near 3.25 percent.

“You are seeing some wage acceleration so it’s natural you see some people selling,” said Robert Tipp, chief investment strategist at PGIM Fixed Income in Newark, New Jersey. “I think it’s overdone,” he said of the market rout.

Average hourly earnings grew 0.3 percent in September, bringing their year-over-year increase to 2.8 percent.

This compared with a similar monthly rise in August and an annual gain of 2.9 percent which was its largest yearly increase in over nine years.

Moreover, the unemployment rate fell to 3.7 percent, which was the lowest level since December 1969.

While the bond market took another beating on Friday, some investors increased their holdings of longer-dated Treasury Inflation Protected Securities based on evidence of further wage growth.

The yield spread between 10-year TIPS and regular 10-year Treasuries, or the 10-year inflation breakeven rate, was 2.17 percent, the highest level since May and up 0.90 basis point from Thursday, according to Tradeweb data.

However, the five-year TIPS breakeven rate weakened marginally to 2.06 percent, just below 2.07 percent set on Wednesday, which was the highest level since July 13. (Reporting by Richard Leong Editing by Tom Brown)